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Testimony Before U.S. Senate Committee on Commerce, Science and Transportation
February 13, 2003

I want to thank the Committee for showing leadership on this important issue and for inviting this panel to be part of the discussion.

John Hancock is a ten-year Olympic sponsor. We have invested over $100 million in the Olympics because it is the only sports sponsorship that gives us the dual opportunities for an investment return and to help America's youth achieve their dreams.

The problems at the USOC go well beyond the current embarrassing public displays. Changing and shrinking the governance structure will only solve part of the problem. The USOC cannot be fixed properly unless its financial and operational underpinnings are understood and addressed.

In order to address them, a few fallacies first have to be disavowed:

- Contrary to popular belief, the USOC does not select Olympic athletes. They are selected by the 39 National Governing Bodies—or NGB's—the federations that run individual sports.
- The USOC also has virtually no responsibility for the Games when they occur in the U.S. That is primarily the responsibility of the host city.
- And it is not the primary developer and trainer of potential Olympic athletes. That role falls to parents, schools, universities, sports clubs and the NGB's.

So, what, exactly, is the USOC supposed to do?

The 1978 Ted Stevens Amateur Sports Act, which helped empower the modern USOC, certainly intends support for athletes. And according to the USOC's constitution, its mission is to "lead the world's best National Olympic Committee: help U.S. Olympic athletes achieve sustained competitive excellence, while inspiring all Americans and preserving the Olympic ideal."

Given the USOC's less than ideal performance in recent years, it is clear that it has lost sight of this mission.

Frankly, the USOC has lost its way.

It has lost its way by ...

- Failing to provide enough resources and opportunities directly to aspiring athletes;
- Failing to be financially self-reliant;
- And failing to provide the financial and ethical transparency that the athletes and the American public deserve.

Let me give a few facts about each of these issues. Much of what we are going to talk about is taken from the USOC's federal tax filings and audited consolidated financial statements available to anyone on the USOC's Web site. These documents are frequently incomplete, confusing, and difficult to reconcile. Nonetheless, the outline of the USOC's problems is crystal clear.

First, opportunities for athletes: the USOC uses its money inefficiently and does not spend enough on the athletes.

For the four-year period ending December 31, 2000, the USOC spent an annual average of 24% of its total support and revenue on overhead.[1] The average major non-profit spends just 16% on overhead—with many lower than that number.[2] A further statistic: during the same four-year period, the portion of the USOC's revenues that actually went directly to the NGB's and the athletes was only an annual average of 46%.[3]

The USOC reports that it has considerable real estate investments, including its corporate headquarters and training facilities, with a cost basis of approximately $145 million and associated annual operating expenses of over $21 million.[4] While the USOC will claim that its training facilities are vital, a great many Olympians and aspiring Olympians don't use them and train instead at other sites, such as universities, private athletic clubs, rinks, and gyms, and public and community training centers. And most athletes would agree, this is an ineffective use of a major part of the USOC's budget.

The USOC has also created a paid bureaucracy that is--in the words of Lloyd Ward at this Committee's January 28 hearing --"500 strong."[5] Contrast this with the International Olympic Committee, which has received its share of criticism in recent years. Responsible for both the Games and supporting athletes worldwide, the IOC has just 150 paid employees.[6]

The USOC also reports that it will receive from the IOC $418 million in television royalties over a ten-year period that began in 1998 and approximately $27 million annually from fees paid to the IOC by U.S.-based international sponsors. On average, that totals about $70 million a year.[7] Between 1997 and 2000, the USOC distributed direct grants and allocations to the NGB's and athletes that averaged $52 million per year—an average of only slightly over a million dollars for each sport.[8] If the entire USOC bureaucracy in Colorado Springs were eliminated-- even if the questionable training facilities were kept-- and the IOC money were just given directly to the NGB's and the athletes, they could get about $18 million more a year.

Here is just one of hundreds of examples of how the USOC has distributed its money: In 2001, the USOC gave $2.6 million to gymnastics and figure skating. These are the two most popular Olympic sports, yet the vast majority of participants are not professional. They are aspiring amateur athletes who virtually have to scrape for funding. Meanwhile, in the same year, the USOC gave the hockey and basketball federations $3.1 million.[9] The NHL and NBA pros who populate the Olympic teams in these sports hardly need the subsidy. Why are the NHL and NBA not paying the USOC for marketing their properties worldwide?

Every dollar that the USOC wastes on its bureaucracy or misguided self-indulgence is a dollar not spent giving a child an opportunity to see what he or she can achieve as an athlete. We should measure the USOC on its ability to allow the greatest number of young people to avail themselves of that opportunity.

The USOC, on the other hand, heralds the medals won by the world's greatest nation as evidence of its success.[10] It is not just about the medals. But even on their own terms, they are not effective.

In the 2002 Salt Lake City Games, the U.S., with a population of 288 million, won 35 medals. Germany, Norway, Austria, Canada and the Russian Federation, with a smaller combined population of 272 million, won 111 medals. Certainly, there is an argument to be made that we are stronger in the Summer Games. We do have great athletes, but even in the 2000 Summer Games in Sydney, with a population of 282 million, we won just 97 medals. With a combined population of 247 million, the Russian Federation, Australia, and Germany won 202 medals.[11]

This leads to my second issue, the lack of self-reliance at the USOC.

What do we mean by a lack of self-reliance?

If we look back at the estimated $70 million that the USOC receives on average from the IOC each year, that represents a large percentage of the USOC's annual operating budget—in some years nearly as much as 60%.[12]

While we should get a fair portion of the IOC's revenues, we should also be cognizant that our dependence on the IOC is dangerous.

The IOC now has 199 national organizing committees to support—more than twice as many in both Summer and Winter Games as in 1976.[13] Many of these nations cannot afford an Olympic program at all. There is considerable international pressure on the IOC to reallocate money to them. Given the way the USOC operates, that will only mean even less money will make its way to American athletes in the future.

Furthermore, the IOC has awarded the Olympic Games to the United States four times in the last 23 years. And in the periods when the Games are in the U.S., the USOC achieves higher revenues than when they are not. All of this contributes to the USOC's perceived waste and gluttony and understandably exacerbates the animosity of some IOC members towards the USOC.

And when the IOC determines two years from now whether to award the 2012 Summer Games to New York City—or not—it may be more interested in holding the Games in a country where the national organizing committee is not going to insist on huge sums of money to fund its own bloated bureaucracy.

Other countries subsidize their national organizing committees. But we are the richest nation on earth. In 2001, $6.4 billion was spent on sports sponsorships in North America.[14] We don't need to depend on the largesse of the IOC to support our athletes. We don't need public subsidizes or lotteries for the USOC. We need a USOC competent enough to compete for those billions of sponsorship dollars with the likes of Major League Baseball and the NFL.

Here is the third issue: the USOC's current financial reporting is far from transparent, allowing it to avoid accountability for the way it raises and spends money.

For example, the USOC is required to specifically disclose to the IRS all contributors who give at least 2% of its revenue in cash and value-in-kind—approximately $950,000 in 2001.[15] In its 2001 tax return, only international sponsors are listed. Its individual donors, domestic sponsors, suppliers, and licensees appear to be missing. The question is, where are they?

Value-in-kind contributions are also not accounted for. The public cannot tell what the USOC gets, its value, or how it is distributed. The *Los Angeles Times* gave us a possible hint when it reported on January 23 that gasoline donated by Chevron and shopping credits donated by Sears are going to the USOC bureaucracy for bonuses, not to the athletes.[16] The question is, how much, what is it, and where does it go?

Obviously, the USOC's financial statements raise more questions than they answer. That is why we sent the USOC a letter on January 20 asking them to fill in the blanks. We look forward to seeing their financials tomorrow, as promised by Lloyd Ward and the USOC's acting president, Bill Martin.

Clearly, the USOC has lost its way. How did this happen?

Among other reasons, it has lost its way because it does not have a boss. The rest of us all answer to somebody. I have shareholders and a board as my bosses. The members of this Committee have the voters. The USOC believes it has no boss. I would suggest that this Committee become the boss.

As boss, I would urge this Committee to hold the USOC to a higher standard and force it to meet specific goals.

They should include ...

- Dramatically downsizing and streamlining the governance structure;

- And whatever new form of governance is arrived at for the USOC, at least half of the board should be appointed by Congress;
- An 85/15 rule that requires that 85 cents of every dollar in the USOC budget goes to the athletes;
- Becoming progressively and completely financially self-reliant within the next ten years;
- Adhering to higher standards of financial management and reporting;
- And once a year, making a full report to the American people through Congress.

I believe that if we do these things, the next time the officers of the USOC appear before this Committee, we will all have something to be proud of, not embarrassed by.

Thank you.

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[1] USOC 2000 Consolidated Financial Statements, pp. 58-59.
[2] *Forbes Magazine* Annual Survey of Charities, December 9, 2002, p. 186.
[3] USOC 2000 Consolidated Financial Statements, pp. 58-59.
[4] USOC 2001 Consolidated Financial Statements, p. 32, p. 36.
[5] U.S Senate Commerce Committee Hearing, January 28, 2003. Transcript pages attached.
[6] IOC Marketing Department.
[7] $418 million: USOC 2001 Consolidated Financial Statements, p. 33. $27 million: USOC 2001 Federal Tax Return, Schedule B, and USOC 2001 Consolidated Financial Statements, p. 25.
[8] USOC 2000 Consolidated Financial Statements, p. 59.
[9] USOC 2001 Federal Tax Return, form 990, statement 8.
[10] Lloyd Ward, "U.S. Can Be Proud Of Olympic Committee," *The New York Times*, January 12, 2003.
[11] www.Olympic.org; U.S. Census Bureau, International Data Base, population figures for 2000 and 2002, updated October 10, 2002.
[12] USOC 2000 Consolidated Financial Statements, p. 59; USOC 2001 Consolidated Financial Statements p. 25.
[13] www.Olympic.org/uk/games/index.
[14] "Sponsorship spending n1 in North America by property type," The American Marketing Association's *Marketing News*, July 8, 2002.
[15] USOC 2001 Federal Tax Return – Form 990 Line 1(d) and Schedule B - Regulation Section 1.6033-2(a)(2)(iii)(a). Line 1(d) $47,748,000 X 2% = $954,960.
[16] "USOC Cuts Spending Amid Budget Crunch," *Los Angeles Times*, January 23, 2003.